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Wake-up call in battle against dirty money

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Wide net: The new act in the first year covers a wide range of businesses including casinos, banks, life insurers, and financial advisers.
Photo: FAIRFAX/ JOHN SELKIRK

Hundreds of businesses classified as financial institutions risk fines of between $200,000 and $2 million two years down the track if they don't comply with compulsory anti-money laundering rules.

The warning comes from Alex Tan, head of the Association of Certified Anti-Money Laundering Specialists of New Zealand, following last month's introduction of the Anti-Money Laundering and Countering Financing of Terrorism Act.

New Zealand is one of the last OECD countries to introduce legislation in this area.

Tan, a director of forensic services at PriceWaterhouseCoopers, says while bigger financial institutions such as banks are aware of their obligations, many small businesses aren't.

The act's regulations will be written in the next six months. Businesses defined as financial institutions will then have either two or three years (depending on their category) to comply with the rules or risk being forced to comply by either the Securities Commission or Ministry of Justice.

Those in the first tier who must comply by late in 2011 or early 2012 include casinos, banks, life insurers, non-bank deposit-takers, issuers of securities, trustee companies, futures dealers, investment scheme managers, brokers, financial advisers, money changers, and credit and debit card providers.

Those with another year to do risk assessment include lawyers, conveyancers, accountants, real estate agents, dealers in precious metals and stone and non-casino businesses such as the Lotteries Commission and Racing Board.

Tan doubts whether even half of those who need to comply would have read the new act yet.

Tan reckons the regulators also have a tough job ahead, monitoring every entity enshrined by the act.

Small money transfer bureaus or "hawalas working at the Otara markets or from their homes" were a case in point, he says.

They were used by Filipinos, Samoans and other islanders working in New Zealand to send money back to families in their home countries without the onerous costs incurred through banks. Tan doubts many would even know about their compliances to combat dirty money.

Last week the OECD's Financial Action Taskforce posted an audit of New Zealand's anti-money laundering and countering financing of terrorism environment.

It showed New Zealand has a considerable amount of work to do before it meets all of the 40 international standards. For instance, the report said resources dedicated to the Reserve Bank's supervisory role for compliance with the legislation for banks was "insufficient to meaningfully make use of the supervisory powers it had available".

It also said the Securities Commission, Ministry of Economic Development and the Department of Internal Affairs lacked the necessary resources for the supervision of the insurance and securities sectors, money or value transfer services and foreign exchange dealers.

The Government has budgeted $25m to 2013 to implement the new regime. A 2008 Deloitte report estimated implementation would cost around $97m.

A similar anti-money laundering act has been in place in Australia for three years. Regulator Austrac fines banks up to A$11m (NZ$14m) and individuals A$2.2m for non-compliance.